

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Albion	County Calhoun
Fiscal Year End 12/31/05	Opinion Date 4/13/06	Date Audit Report Submitted to State 6/23/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

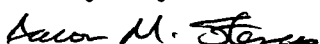
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517.351.6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Aaron M. Stevens		License Number 1101024055

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2005

City of Albion

Calhoun County, Michigan

December 31, 2005

CITY COUNCIL AND ADMINISTRATION

Mr. William M. Wheaton	Mayor
Mr. Ron Gant	Council member
Ms. Betty Branche	Council member
Mr. Ken Karl Waito	Council member
Mr. Andrew Zblewski	Council member
Ms. Cheryl Krause	Council member
Mr. George Strander	Council member
Mr. Mike Herman	City Manager
Ms. Kerry Helmick	Clerk/Treasurer/ Finance Director

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Principals

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Albion
Albion, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of December 31, 2005, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2006 on our consideration of the City of Albion's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albion's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2005, as well as an analysis of what this financial condition means for the future financial operations of the City. This is the second year that the requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34 will be implemented for the City. Therefore it is possible to provide direct comparisons with financial information from the prior year's operations. The information provided in this discussion and analysis should be reviewed in conjunction with the audit information provided in the audit of the City's 2005 fiscal year.

Government-Wide Financial Statements

Under GASB 34 government-wide financial statements have been added to the audit process with the intent of providing a broad overview of the City's finances. The government-wide statements are presented on a full accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed. Two government-wide statements are provided. One government-wide statement, the Statement of Net Assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Over time, increases or decreases in the City's net assets may be an indicator of whether the City's financial health is improving or deteriorating. However, other factors both financial and non-financial should be considered in assessing the overall financial health of the City.

The second government-wide statement, the Statement of Activities, provides information on how the government-wide net assets changed during the fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in the statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

In the Statement of Net Assets and the Statement of Activities, we report the following kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including, but not limited to, police, fire, general administration, parks and recreation, public works, major and local streets and the library. Taxes, charges for services and intergovernmental revenue primarily fund these services.
- Business-type Activities - These activities operate like private business. The City charges fees to recover the cost of the services provided. The City's water and sewer activities are reported here.
- Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organizations board and there is a degree of financial accountability to the City. Component units for the City of Albion are the Downtown Development Authority (DDA), the Economic Development Corporation (EDC) and the Tax Increment Finance Authority (TIFA).

Following the government-wide financial statements will be Governmental Fund Financial Statements. While the government-wide financial statements are presented on a full accrual basis of accounting, the Governmental Fund Financial Statements are presented on a modified accrual basis of accounting.

The differences between the full accrual basis and modified accrual basis of accounting are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities in the Government-wide Statement of Net Assets, which are not included in the Governmental Funds Balance Sheet. Also, there is a difference related to the timing of reporting capital outlays and debt principal repayment in the Governmental Funds Financial Statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest and accrued employee leave time in the Governmental Funds Financial Statements versus the Government-wide Statements. (See following table)

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Item Description	Government-Wide Statements	Government Fund Statements
Capital Assets	Depreciation reported	Depreciation not reported
Capital Outlay	Capital asset	Reported as expenditure
Internal Service Fund (Equip. Pool)	Government activity	Proprietary fund
Long-term liability (sick leave)	Liability	Actual expenditures
Bond proceeds	Liability	Other financing source

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds (activities); not the City as a whole. A Fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. GASB 34 defines these significant funds as "major funds" which are reported separately as part of the Fund Financial Statements portion of the audit.

The Major funds for the City of Albion include the General Fund, CDBG, Albion Building Authority, Revolving Loan, Albion Trust, Library Trust, Sewer and Water. All other funds will be classified as nonmajor funds and are reported in aggregate by the applicable fund type. All of the funds of the City of Albion can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. The City of Albion maintains several individual governmental funds. These funds are presented in the Balance Sheet under Governmental Fund Types under the categories of General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in Proprietary Funds. The City of Albion uses two types of proprietary funds. Enterprise Funds are used to report the activities for the water and sewer operations. The Internal Service Fund is used to report the activities for the equipment pool operations.

Fiduciary Funds - The City of Albion is the trustee, or fiduciary, for the following funds: Public Safety Officers' Pension and the Retiree Health Care. All of the City's fiduciary funds are reported in a separate statement of Fiduciary Net Assets. The government-wide statements exclude the fiduciary fund activities and balances because these assets are not available to the City of Albion to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information, which further explains and supports the information in the financial statements. Other supplementary information includes combining financial statements for nonmajor governmental funds, component unit funds and schedules of outstanding debt.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Government-Wide (City as a Whole) Financial Analysis

The Statement of Net Assets provides information that can be helpful in evaluating the City's financial condition. The net assets and changes over time can provide an indication of whether the City's financial health is improving or deteriorating. However, it should be noted that other factors both economic and non-economic can affect the City's financial health.

The largest portion of the City's net assets is invested in capital assets (streets, buildings, land, equipment, and utility systems). These assets are used to provide services to residents in the community and therefore these assets are not available to pay operating expenses, etc. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the funds needed to repay current City debt must be provided from other sources, since the capital assets themselves cannot be used to cover these liabilities.

Net Assets as of December 31, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 6,500,504	\$ 6,024,303	\$ 2,023,292	\$ 2,268,483	\$ 8,523,796	\$ 8,292,786
Capital Assets	<u>4,737,841</u>	<u>4,698,668</u>	<u>9,671,974</u>	<u>9,772,354</u>	<u>14,409,815</u>	<u>14,471,022</u>
Total Assets	<u>\$11,238,345</u>	<u>\$10,722,971</u>	<u>\$11,695,266</u>	<u>\$12,040,837</u>	<u>\$22,933,611</u>	<u>\$22,763,808</u>
Current Liabilities	\$ 1,306,002	\$ 1,275,117	\$ 271,547	\$ 223,695	\$ 1,577,549	\$ 1,498,812
Noncurrent Liabilities	<u>2,198,319</u>	<u>2,315,527</u>	<u>1,439,137</u>	<u>1,524,069</u>	<u>3,637,456</u>	<u>3,839,596</u>
Total Liabilities	<u>\$ 3,504,321</u>	<u>\$ 3,590,644</u>	<u>\$ 1,710,684</u>	<u>\$ 1,747,764</u>	<u>\$ 5,215,005</u>	<u>\$ 5,338,408</u>
Net Assets						
Invested in Capital Assets (net of related debt)	\$ 2,638,195	\$ 2,489,844	\$ 8,291,563	\$ 8,286,926	\$ 10,929,758	\$ 10,776,770
Restricted	238,603	285,200	-	-	238,603	285,200
Unrestricted	<u>4,857,226</u>	<u>4,357,283</u>	<u>1,693,019</u>	<u>2,006,147</u>	<u>6,550,245</u>	<u>6,363,430</u>
Total Net Assets	<u>\$ 7,734,024</u>	<u>\$ 7,132,327</u>	<u>\$ 9,984,582</u>	<u>\$ 10,293,073</u>	<u>\$ 17,718,606</u>	<u>\$ 17,425,400</u>

The Total Net Assets for Governmental Activities increased by about \$600,000 which is a result of about a \$300,000 increase in the General Fund balance and about a \$215,000 increase in the Albion Building Authority fund balance. The Total Net Assets for Business-type Activities decreased by about \$300,000 which is a result of the short fall in operating revenues to cover current operating expenses. This situation should improve as we continue to implement planned rate increases in the rates for water and sewer service.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Changes in Net Assets for the Fiscal Year Ended December 31, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program Revenues						
Charges for Services	\$ 797,026	\$ 821,194	\$ 1,629,355	\$ 1,576,163	\$ 2,426,381	\$ 2,397,357
Grants and Contributions	1,085,945	1,129,692	-	6,743	1,085,945	1,136,435
General Revenues						
Property Taxes	2,301,836	2,494,725	-	-	2,301,836	2,494,725
Income Taxes	1,126,096	1,080,865	-	-	1,126,096	1,080,865
State Shared Revenues	1,262,039	1,282,945	-	-	1,262,039	1,282,945
Investment Earnings	147,299	77,047	18,611	14,365	165,910	91,412
Miscellaneous	218,895	302,236	38,057	28,188	256,952	330,424
Total Revenues	\$ 6,939,136	\$ 7,188,704	\$ 1,686,023	\$ 1,625,459	\$ 8,625,159	\$ 8,814,163
Expenses						
General Government	\$ 1,628,968	\$ 1,396,882	\$ -	\$ -	\$ 1,628,968	\$ 1,396,882
Public Safety	2,303,079	2,471,989	-	-	2,303,079	2,471,989
Public Works	1,141,159	789,933	-	-	1,141,159	789,933
Health and Welfare	144,292	157,134	-	-	144,292	157,134
Community and Econ. Development	411,445	373,275	-	-	411,445	373,275
Recreation and Cultural	251,617	344,962	-	-	251,617	344,962
Interest on Long Term Debt	89,948	8,166	-	-	89,948	8,166
Other	206,942	236,386	2,015,054	1,834,486	2,221,996	2,070,872
Total Expenses	6,177,450	5,778,727	2,015,054	1,834,486	8,192,504	7,613,213
Change in Net Assets	761,686	1,409,977	(329,031)	(209,027)	432,655	1,200,950
Net Assets - Beginning Prior Period	7,132,327	5,722,350	10,293,073	10,224,209	17,425,400	15,946,559
Adjustments	(159,989)	-	20,540	227,891	(139,449)	227,891
Net Assets - Ending	\$ 7,734,024	\$ 7,132,327	\$ 9,984,582	\$10,293,073	\$17,718,606	\$17,425,400

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Governmental Activities

Revenues:

The three largest revenue sources under the Governmental Activities category are Property Taxes at 33%, State Revenue Sharing at 18%, and the City Income Taxes at 16%. In November 2003, City voters approved a three-year 1.0 mill levy for Public Safety and a three-year 0.80 mill levy for Recreation. These extra millage amounts will be collected in 2004, 2005, and 2006 respectively. From 2004 to 2005 there was a decrease in property tax revenue of about \$200,000 which is primarily a result of the collection of a significant amount of delinquent personal property taxes in 2004. With the clearing out of this backlog of delinquent personal property taxes, there will be less revenue in this category in the future. It is anticipated that property taxes in the future will increase at the rate of inflation from the level in 2005.

As a result of the closing of Trillium Hospital, Harvard Industries, and K-Mart in the spring of 2002, the City lost over 800 local jobs. This, along with a prolonged downturn in the economy, has resulted in about a \$403,000 reduction in the annual revenue generated by the local city income tax. The city income tax revenue has leveled off at about \$1.1 million from a previous high of about \$1.5 million. From 2004 to 2005 income tax revenues increased by about 4.0%. It is anticipated that we will continue to see modest increases each year if the economy continues to improve.

Annual State Revenue Sharing, as a result of the downturn in the State economy, has likewise seen a significant reduction to about \$1.3 million from a previous high of just over \$1.5 million. The State revenue sharing amount has also been negatively impacted as a result of the City's continued population decline of about 1,000 people per decade since 1970. The City's current (2000 census) population is 9,144, as compared to its highest level of 12,749 residents in 1960. It is anticipated that State Revenue Sharing payments will remain relatively flat for the next few years.

Expenses:

The largest Governmental Activities expense item is Public Safety at 37% of total expenses. The next largest expense item is General Government at 26% of total expenses. Cost increases are primarily the result of the increasing cost for employee pay and fringe benefits. Prior year adjustments for interest expense also contributed to the increase in total expenses.

Business-Type Activities

The Statement of Net Assets shows that for Business-type Activities as of December 31, 2005 there were Total Net Assets of \$9,984,582, which represents a decrease of \$308,491 from the prior year. The Statement of Net Assets is significantly affected by the recording of depreciation expense. For utility funds the City's charter requires that rates be "...fixed as to at least meet all the costs of such utility, including depreciation". Therefore, the City's utility funds record depreciation even if revenues are not sufficient to fund depreciation for the fiscal year.

Financial Analysis of the City's Major Funds

General Fund:

The General Fund is the primary operating fund of the City of Albion. As of December 31, 2005, the General Fund had an undesignated fund balance of \$561,513 and a reserved fund balance of \$83,918. This amount is an increase of \$233,754 from the fund balance on December 31, 2004.

From a budgetary standpoint, General Fund revenues exceeded the budgeted amount by \$61,019 and expenditures were below budget by \$238,321. The majority of the departments and activities were under budget for expenditures for 2005. There are a couple areas that exceeded the budgeted amount for expenditures and these areas need to be more closely monitored in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The Recreation program is partially funded by a special voted millage of 0.80 mills per year (revenues estimated at \$80,000). In order to meet the anticipated expenditures for the program, it is necessary to raise additional revenues at the local level. Expenditures for the recreation department increased in 2005 in an effort to provide after school program activities which the public schools could no longer provide as a result of the loss of grant funding. As a result of these extra expenditures, the recreation department was short of its revenue goal by about \$47,000.

Under the General Appropriation area in the General Fund, we always seem to struggle to stay within budget. Part of the reason for this is that the General Appropriation area is where we charge many of the unexpected expenditures. The most significant unexpected expenditure in this area for 2005 was the payback to SEMCO of \$42,193 as the result of a tax appeal. As a result of this expenditure we were about \$20,000 over budget in the General Appropriation area.

Community Development Block Grant Fund:

The CDBG Fund is used to account for the specific financial resources used to improve the quality of the City. The CDBG Fund reflected a decrease in fund balance related to current year activity of \$3,402 and was further reduced by \$87,291 due to a prior period adjustment. This was a result of overstated interest receivable over the past few years. Fund balance for this fund was \$333,398 as of December 31, 2005.

Revolving Loan Fund:

The Revolving Loan Fund is used to loan local businesses money at low interest rates. The Revolving Loan Fund reflected an increase in fund balance related to current year activity of \$61,538. Fund balance for this fund was \$443,291 at year end.

Albion Trust Fund:

The Albion Trust Fund is used to account for funding for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility Bonds. The fund balance decreased as the result of current year activity by \$20,771. Fund balance for this fund was \$1,219,896 at year end.

Library Trust Fund:

The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion. Fund balance for this fund was \$991,361 at year end, unchanged from the 2004 fund balance.

Water:

The City operates a water treatment plant and distribution system that serves the City and a small portion of the neighboring townships. In 2002 the City implemented a 5-year rate increase schedule for the water system. As a result of these rate changes, the water system in 2005 was able to cover all of its operating costs, including depreciation. Net assets for the water system increased by \$4,582 to a December 31, 2005 level of \$5,174,811. The water system had a cash balance of about \$769,672 at year end.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. In 2004 the City approved a 3-year rate increase schedule for the sewer system. For several years, the sewer system has not been able to cover all of its operating costs, including depreciation. The new rate schedule is expected to correct this shortfall situation by the end of the third year of the phased in rate increases. Net assets for the sewer system decreased by \$313,073 to a December 31, 2005 level of \$4,809,771. The majority of these assets are invested in facilities and equipment. The sewer system had a cash balance of about \$478,314 at year end.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Capital Assets and Debt Administration

At the end of the year, the City had invested \$4,737,841 and \$9,395,393 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$323,314 for the governmental activities and \$384,891 for the business-type activities. The following chart provides more detail on these capital assets.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Units</u>	<u>Total</u>
Land and construction in progress	\$ 420,906	\$ 370,281	\$ 201,655	\$ 992,842
Infrastructure, net	2,245,101	-	-	2,245,101
Buildings and improvements, net	1,454,400	5,929,733	42,000	7,426,133
Vehicles and equipment, net	617,434	245,206	-	862,640
Sewer system, net	-	808,335	-	808,335
Water system, net	-	2,318,419	-	2,318,419
Capital assets, net	<u>\$ 4,737,841</u>	<u>\$ 9,671,974</u>	<u>\$ 243,655</u>	<u>\$ 14,653,470</u>

Long-term Debt:

As of December 31, 2005 the City had the following bond debt outstanding:

Primary Government

	<u>Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2005</u>
Governmental Activities				
General Obligation Bonds	\$ 1,305,000	\$ -	\$ 70,000	\$ 1,235,000
Transportation Bonds	40,000	-	20,000	20,000
Installment Purchase Agreement	545,000	-	73,522	471,478
EPA Liability	168,879	-	10,785	158,094
Loans Payable	59,509	-	15,869	43,640
Building Authority Loan	90,436	-	7,102	83,334
Land contract	-	88,100	-	88,100
Compensated Absences	486,146	18,223	-	504,369
	2,694,970	106,323	197,278	2,604,015
Business-type Activities				
Revenue Bonds	1,445,000	-	75,000	1,370,000
Capital Lease	40,428	-	30,017	10,411
Compensated Absences	202,546	6,420	-	208,966
	1,687,974	6,420	105,017	1,589,377
Total Primary Government	4,382,944	112,743	302,295	4,193,392
Component Unit				
General Obligation Bonds	240,000	-	60,000	180,000
Land Contract	51,583	-	2,732	48,851
Loans Payable	85,636	-	22,836	62,800
Total Reporting Entity	<u>\$ 4,760,163</u>	<u>\$ 112,743</u>	<u>\$ 387,863</u>	<u>\$ 4,485,043</u>

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

As of December 31, 2005 the City had total outstanding debt for governmental activities (including accumulated vacation and sick time) of \$2,604,015. For business-type activities the outstanding debt (including accumulated vacation and sick time) was \$1,589,377 as of December 31, 2005.

As a result of the significant cost for issuing bonds, the City for the past several years has used an installment purchase process to purchase land, buildings and equipment. These obligations are reflected in the chart showing the City's outstanding debt.

Economic Factors and Next Year's Budget

For several years the City has levied its maximum millage amount, authorized under Headlee, for operating purposes. This millage is currently 11.9736 and it is expected that the City will continue to levy this amount of millage in the future. In addition, the City has several special millages that have been approved by the voters.

a. Water plant bonds - currently at	1.3 mills
b. Street reconstruction	2.9937 mills
c. Public Safety	1.00 mills
d. Recreation	0.80 mills

Also, the City levies 2.0 mills for solid waste under existing state statute. Thus, the current total City millage levy is 20.0673 mills. The last year for the special Public Safety and Recreation millages is fiscal year 2006. At this time it is anticipated that the City will not seek renewal of the special Public Safety millage, however, it is likely that additional millage will be requested for the Recreation Program.

State revenue sharing continues to be of concern. Over the last 3 years there has been a significant reduction in the amount of state revenue sharing received by the City. The prospect of an increase in funding in the next couple of years is not good.

The local City income tax has also experienced a significant reduction over the last 3 years. Improvements to this funding source are dependent upon improvements to the Michigan economy and an increase in the number of local jobs.

In the area of expenses, the City currently has settled contracts with all of its four unions, which do not expire until December 31, 2007. General pay increases have been set at 2% a year through 2007.

Just like other employers, the City continues to struggle with the significant increases in cost for medial insurance for its employees. Although changes have been made in the coverages provided, the City continues to expect to see double digit increases for the next few years.

The City continues to pursue grants to assist with capital projects, as well as activities that can spur economic development and job creation in the City. As a result of the special voted millage (the current 3.0 mill annual levy was approved in August 2005 to extend until 2010) for street reconstruction, the City will continue to have an active street reconstruction program each year.

The City has experienced no specific events that it believes will materially impact the finances of the City for the next few years. However, the continued lagging of the economy in Michigan, as well as the limitations on tax millage, will provide on-going challenges to the City to provide necessary services within existing resources.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City Manager or the City Treasurer at (517) 629-5535.

BASIC FINANCIAL STATEMENTS

City of Albion

STATEMENT OF NET ASSETS

December 31, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,682,652	\$ 1,028,117	\$ 3,710,769	\$ 97,216
Investments	2,066,099	-	2,066,099	40,057
Receivables	1,137,235	467,931	1,605,166	49,414
Due from other governmental units	293,106	-	293,106	13,257
Prepays	89,096	14,798	103,894	602
Inventories	3,781	2,910	6,691	-
Total current assets	6,271,969	1,513,756	7,785,725	200,546
Noncurrent assets				
Cash and cash equivalents - restricted	-	219,869	219,869	-
Investments	228,535	289,667	518,202	-
Capital assets not being depreciated	420,906	370,281	791,187	201,655
Capital assets, net of accumulated depreciation	4,316,935	9,301,693	13,618,628	42,000
Total noncurrent assets	4,966,376	10,181,510	15,147,886	243,655
TOTAL ASSETS	11,238,345	11,695,266	22,933,611	444,201
LIABILITIES				
Current liabilities				
Accounts payable	68,837	118,116	186,953	3,255
Accrued liabilities	102,574	3,191	105,765	4,649
Accrued wages	94,884	-	94,884	-
Due to other governmental units	299	-	299	13,256
Accrued interest payable	23,828	-	23,828	5,460
Deferred revenue	609,884	-	609,884	768
Current portion of compensated absences	185,338	59,829	245,167	-
Current portion of long-term debt	220,358	90,411	310,769	85,765
Total current liabilities	1,306,002	271,547	1,577,549	113,153
Noncurrent liabilities				
Noncurrent portion of compensated absences	319,031	149,137	468,168	-
Noncurrent portion of long-term debt	1,879,288	1,290,000	3,169,288	205,886
Total noncurrent liabilities	2,198,319	1,439,137	3,637,456	205,886
TOTAL LIABILITIES	3,504,321	1,710,684	5,215,005	319,039
NET ASSETS				
Invested in capital assets, net of related debt	2,638,195	8,291,563	10,929,758	132,004
Restricted for:				
Debt service	29,828	-	29,828	-
Other purposes	208,775	-	208,775	-
Unrestricted	4,857,226	1,693,019	6,550,245	(6,842)
TOTAL NET ASSETS	\$ 7,734,024	\$ 9,984,582	\$ 17,718,606	\$ 125,162

See accompanying notes to financial statements.

City of Albion
STATEMENT OF ACTIVITIES
Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	Component Units
				Governmental Activities	Business-type Activities		
Primary government							
Governmental activities							
General government	\$ 1,628,968	\$ 264,297	\$ 177,843	\$ (1,186,828)	\$ -	\$ (1,186,828)	\$ -
Public safety	2,303,079	34,948	16,341	(2,251,790)	-	(2,251,790)	-
Public works	1,141,159	5,931	618,487	(516,741)	-	(516,741)	-
Health and welfare	144,292	30,003	-	(114,289)	-	(114,289)	-
Community and economic development	411,445	255,573	255,016	99,144	-	99,144	-
Recreation and cultural	251,617	13,526	18,258	(219,833)	-	(219,833)	-
Other	206,942	192,748	-	(14,194)	-	(14,194)	-
Interest on long-term debt	89,948	-	-	(89,948)	-	(89,948)	-
Total governmental activities	6,177,450	797,026	1,085,945	(4,294,479)	-0-	(4,294,479)	-0-
Business-type activities							
Sewer system	1,215,115	866,224	-	-	(348,891)	(348,891)	-
Water system	797,989	763,131	-	-	(34,858)	(34,858)	-
Total business-type activities	2,013,104	1,629,355	-0-	-0-	(383,749)	(383,749)	-0-
Total primary government	\$ 8,190,554	\$ 2,426,381	\$ 1,085,945	(4,294,479)	(383,749)	(4,678,228)	-0-
Component units							
Economic Development Corporation	\$ 198,000	\$ 106,016	\$ 60,639	-	-	-	(31,345)
Downtown Development Authority	122,567	-	89,500	-	-	-	(33,067)
Tax Increment Finance Authority	126,061	-	-	-	-	-	(126,061)
Total component units	\$ 446,628	\$ 106,016	\$ 150,139	-0-	-0-	-0-	(190,473)
General revenues							
Property taxes				2,301,836	-	2,301,836	235,844
Income taxes				1,126,096	-	1,126,096	-
State shared revenue				1,262,039	-	1,262,039	-
Investment earnings				147,299	18,611	165,910	13,403
Miscellaneous				216,945	38,057	255,002	-
Transfers				1,950	(1,950)	-0-	85,897
Total general revenues and transfers				5,056,165	54,718	5,110,883	335,144
Change in net assets				761,686	(329,031)	432,655	144,671
Net assets, beginning of the year				7,132,327	10,293,073	17,425,400	(19,509)
Prior period adjustments				(159,989)	20,540	(139,449)	-
Net assets, end of the year				\$ 7,734,024	\$ 9,984,582	\$ 17,718,606	\$ 125,162

See accompanying notes to financial statements.

City of Albion

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2005

	General	Special Revenue		
		Community Development Block Grant	Revolving Loan	Albion Trust
ASSETS				
Cash and cash equivalents	\$ 230,982	\$ 316,460	\$ 441,104	\$ -
Investments	66,752	-	-	1,219,896
Receivables				
Accounts	144,570	2,518	2,187	-
Taxes	282,389	-	-	-
Loans	-	441,885	182,447	-
Due from other governmental units	223,430	-	-	-
Due from other funds	77	-	-	-
Prepays	67,388	-	-	-
TOTAL ASSETS	\$ 1,015,588	\$ 760,863	\$ 625,738	\$ 1,219,896
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 52,693	\$ -	\$ -	\$ -
Accrued liabilities	60,892	-	-	-
Accrued wages	94,884	-	-	-
Due to other funds	-	28	-	-
Due to other governmental units	-	-	-	-
Deferred revenue	161,688	427,437	182,447	-
TOTAL LIABILITIES	370,157	427,465	182,447	-0-
FUND BALANCES				
Reserved for				
Library trust	-	-	-	-
Prepays	67,388	-	-	-
Park fence	16,530	-	-	-
Library activities	-	-	-	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved - undesignated	561,513	333,398	443,291	1,219,896
TOTAL FUND BALANCES	645,431	333,398	443,291	1,219,896
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,015,588	\$ 760,863	\$ 625,738	\$ 1,219,896

See accompanying notes to financial statements.

Permanent		
Library	Nonmajor	Total
Trust	Governmental	Governmental
	Funds	Funds
\$ -	\$ 1,406,706	\$ 2,395,252
991,361	16,625	2,294,634
-	9,054	158,329
-	72,185	354,574
-	-	624,332
-	69,676	293,106
-	28	105
-	14,225	81,613
<u>\$ 991,361</u>	<u>\$ 1,588,499</u>	<u>\$ 6,201,945</u>
\$ -	\$ 14,975	\$ 67,668
-	41,682	102,574
-	-	94,884
-	77	105
-	299	299
-	79,484	851,056
-0-	136,517	1,116,586
991,361	-	991,361
-	14,225	81,613
-	-	16,530
-	177,120	177,120
-	370,548	370,548
-	53,656	53,656
-	836,433	3,394,531
<u>991,361</u>	<u>1,451,982</u>	<u>5,085,359</u>
<u>\$ 991,361</u>	<u>\$ 1,588,499</u>	<u>\$ 6,201,945</u>

City of Albion

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balances - governmental funds \$ 5,085,359

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 8,273,680	
Accumulated depreciation is	<u>(3,535,839)</u>	
Capital assets, net		4,737,841

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	573,969	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(279,554)</u>	
		294,415

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		241,172
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	2,099,646	
Accrued interest payable	23,828	
Compensated absences	<u>501,289</u>	
		<u>(2,624,763)</u>

Net assets of governmental activities \$ 7,734,024

See accompanying notes to financial statements.

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	General	Special Revenue		
		Community Development Block Grant	Revolving Loan	Albion Trust
REVENUES				
Taxes	\$ 2,682,551	\$ -	\$ -	\$ -
Licenses and permits	55,513	-	-	-
Intergovernmental	1,445,739	-	-	-
Charges for services	314,145	1,039	52,322	-
Fines and forfeits	57,379	-	-	-
Interest and rents	74,758	7,828	12,854	19,270
Other	181,836	-	-	-
TOTAL REVENUES	4,811,921	8,867	65,176	19,270
EXPENDITURES				
Current				
General government	978,609	-	-	41
Public safety	2,284,432	-	-	-
Public works	198,136	-	-	-
Health and welfare	98,292	-	-	-
Community and economic development	115,127	12,269	3,638	-
Recreation and cultural	320,161	-	-	-
Other	206,942	-	-	-
Debt service	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	4,201,699	12,269	3,638	41
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	610,222	(3,402)	61,538	19,229
OTHER FINANCING SOURCES (USES)				
Land contract	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(303,770)	-	-	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)	(303,770)	-0-	-0-	(40,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	306,452	(3,402)	61,538	(20,771)
Fund balances, beginning of year	411,677	424,091	381,753	1,240,667
Prior period adjustments	(72,698)	(87,291)	-	-
Fund balances, end of year	\$ 645,431	\$ 333,398	\$ 443,291	\$ 1,219,896

See accompanying notes to financial statements.

Permanent		
Library Trust	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 718,350	\$ 3,400,901
-	-	55,513
-	883,318	2,329,057
-	69,927	437,433
-	41,567	98,946
22,862	216,810	354,382
-	52,087	233,923
22,862	1,982,059	6,910,155
-	432,867	1,411,517
-	5,320	2,289,752
-	855,358	1,053,494
-	-	98,292
-	274,411	405,445
-	-	320,161
-	-	206,942
-	286,985	286,985
-	386,487	386,487
-0-	2,241,428	6,459,075
22,862	(259,369)	451,080
-	88,100	88,100
-	1,153,184	1,153,184
(22,862)	(784,602)	(1,151,234)
(22,862)	456,682	90,050
-0-	197,313	541,130
991,361	1,254,669	4,704,218
-	-	(159,989)
\$ 991,361	\$ 1,451,982	\$ 5,085,359

City of Albion

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ 541,130

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 362,487	
Depreciation expense	<u>(323,314)</u>	
Excess of capital outlay over depreciation expense		39,173

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	11,430	
Capital outlay of the Internal Service Fund included in the total above	(27,487)	
Depreciation expense of Internal Service Funds included in the total above	<u>79,476</u>	
		63,419

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue		27,031
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Land contract	(88,100)	
Long-term debt principal retirements	<u>197,278</u>	109,178

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(241)	
(Increase) in accrued compensated absences	<u>(18,004)</u>	
		<u>(18,245)</u>

Change in net assets of governmental activities \$ 761,686

See accompanying notes to financial statements.

City of Albion
Proprietary Funds
STATEMENT OF NET ASSETS
December 31, 2005

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 478,106	\$ 550,011	\$1,028,117	\$ 287,400
Accounts receivable	254,537	213,394	467,931	-
Inventories	760	2,150	2,910	3,781
Prepays	9,771	5,027	14,798	7,483
Total current assets	743,174	770,582	1,513,756	298,664
Noncurrent assets				
Cash and cash equivalents - restricted	208	219,661	219,869	-
Investments	270,336	19,331	289,667	-
Capital assets not being depreciated	276,581	93,700	370,281	-
Capital assets, net of accumulated depreciation	3,767,758	5,533,935	9,301,693	279,554
Total noncurrent assets	4,314,883	5,866,627	10,181,510	279,554
TOTAL ASSETS	5,058,057	6,637,209	11,695,266	578,218
LIABILITIES				
Current liabilities				
Accounts payable	106,873	11,243	118,116	1,169
Accrued liabilities	1,197	1,994	3,191	-
Current portion of compensated absences	36,709	23,120	59,829	616
Current portion of long-term debt	10,411	80,000	90,411	-
Total current liabilities	155,190	116,357	271,547	1,785
Noncurrent liabilities				
Noncurrent portion of compensated absences	93,096	56,041	149,137	2,464
Noncurrent portion of long-term debt	-	1,290,000	1,290,000	-
Total noncurrent liabilities	93,096	1,346,041	1,439,137	2,464
TOTAL LIABILITIES	248,286	1,462,398	1,710,684	4,249
NET ASSETS				
Invested in capital assets, net of related debt	4,033,928	4,257,635	8,291,563	279,554
Unrestricted	775,843	917,176	1,693,019	294,415
TOTAL NET ASSETS	\$4,809,771	\$5,174,811	\$9,984,582	\$ 573,969

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2005

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 866,224	\$ 763,131	\$ 1,629,355	\$ 255,079
Other	30,580	7,477	38,057	73
TOTAL OPERATING REVENUES	896,804	770,608	1,667,412	255,152
OPERATING EXPENSES				
Salaries and wages	389,637	199,779	589,416	45,575
Fringe benefits	159,395	78,390	237,785	18,091
Contractual services	101,519	39,590	141,109	-
Supplies	129,545	82,249	211,794	64,214
Utilities	122,871	64,519	187,390	12,261
Insurance and bonds	16,881	8,177	25,058	13,513
Administrative services	35,299	35,299	70,598	10,592
Building and equipment rental	-	8,119	8,119	-
Other	50,644	28,226	78,870	-
Depreciation	207,103	177,788	384,891	79,476
TOTAL OPERATING EXPENSES	1,212,894	722,136	1,935,030	243,722
OPERATING INCOME (LOSS)	(316,090)	48,472	(267,618)	11,430
NONOPERATING REVENUES (EXPENSES)				
Interest earned	6,538	12,073	18,611	-
Interest expense and fees	(2,221)	(75,853)	(78,074)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	4,317	(63,780)	(59,463)	-0-
INCOME (LOSS) BEFORE TRANSFERS	(311,773)	(15,308)	(327,081)	11,430
TRANSFER OUT	(1,300)	(650)	(1,950)	-
CHANGE IN NET ASSETS	(313,073)	(15,958)	(329,031)	11,430
Net assets, beginning of year	5,122,844	5,170,229	10,293,073	562,539
Prior period adjustment	-	20,540	20,540	-
Net assets, end of year	\$ 4,809,771	\$ 5,174,811	\$ 9,984,582	\$ 573,969

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 896,271	\$ 808,340	\$ 1,704,611	\$ 253,699
Cash paid to suppliers	(357,152)	(261,765)	(618,917)	(102,992)
Cash paid for employee benefits	(560,175)	(281,971)	(842,146)	(64,975)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(21,056)	264,604	243,548	85,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments of borrowing	(36,317)	(68,700)	(105,017)	-
Purchase of capital assets	(276,581)	(7,930)	(284,511)	(27,487)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(312,898)	(76,630)	(389,528)	(27,487)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(1,300)	(650)	(1,950)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earned	6,538	12,073	18,611	-
Sale of investments	39,449	771,532	810,981	-
Interest expense and fees	(2,221)	(75,853)	(78,074)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	43,766	707,752	751,518	-0-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(291,488)	895,076	603,588	58,245
Cash and cash equivalents, beginning of year	769,802	(125,404)	644,398	229,155
Cash and cash equivalents, end of year	<u>\$ 478,314</u>	<u>\$ 769,672</u>	<u>\$ 1,247,986</u>	<u>\$ 287,400</u>

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2005

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (316,090)	\$ 48,472	\$ (267,618)	\$ 11,430
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	207,103	177,788	384,891	79,476
Decrease in accounts receivable	2,128	39,609	41,737	-
(Increase) in prepaids	(2,661)	(1,877)	(4,538)	(1,453)
(Increase) decrease in inventories	1,748	(1,149)	599	(1,162)
Increase (decrease) in accounts payable	97,859	5,563	103,422	(1,250)
Increase in compensated absences	3,081	3,339	6,420	219
(Decrease) in accrued liabilities	(14,224)	(7,141)	(21,365)	(1,528)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (21,056)</u>	<u>\$ 264,604</u>	<u>\$ 243,548</u>	<u>\$ 85,732</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2005

	Agency	Private Purpose Trusts
ASSETS		
Cash and cash equivalents	\$ 663,348	\$ 307,367
Investments	-	14,632,190
Taxes receivable	56,892	-
Interest receivable	-	71,062
Other assets	11,576	-
TOTAL ASSETS	<u>\$ 731,816</u>	<u>\$ 15,010,619</u>
LIABILITIES		
Due to State	\$ 35,244	\$ -
Due to County	100,602	-
Due to Schools	394,732	-
Due to others	201,238	-
TOTAL LIABILITIES	<u>\$ 731,816</u>	<u>-0-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 15,010,619</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2005

	Private Purpose Trusts
ADDITIONS	
Investment income	
Interest and dividends	\$ 520,163
Net decrease in fair value of investments	(130,823)
Gain on sales of investments	854,033
Less investment expenses	<u>(26,507)</u>
Net investment income	1,216,866
Contributions	
Employer	<u>50,591</u>
TOTAL ADDITIONS	1,267,457
DEDUCTIONS	
Benefit payments	655,035
Administrative expenses	<u>101,793</u>
TOTAL DEDUCTIONS	<u>756,828</u>
CHANGE IN NET ASSETS	510,629
Net assets, beginning of year	<u>14,499,990</u>
Net assets, end of year	<u><u>\$ 15,010,619</u></u>

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF NET ASSETS

December 31, 2005

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,297	\$ 121,293	\$ (31,374)	\$ 97,216
Investments	-	-	40,057	40,057
Receivables	7,362	13,190	28,862	49,414
Due from other governmental units	13,256	-	1	13,257
Prepays	-	535	67	602
Total current assets	27,915	135,018	37,613	200,546
Noncurrent assets				
Capital assets not being depreciated	41,655	-	160,000	201,655
Capital assets, net of accumulated depreciation	16,800	-	25,200	42,000
Total noncurrent assets	58,455	-0-	185,200	243,655
TOTAL ASSETS	86,370	135,018	222,813	444,201
LIABILITIES				
Current liabilities				
Accounts payable	2,388	6	861	3,255
Accrued liabilities	1,537	-	3,112	4,649
Accrued interest payable	-	5,460	-	5,460
Due to other governmental units	-	-	13,256	13,256
Deferred revenue	768	-	-	768
Current portion of long-term debt	2,929	60,000	22,836	85,765
Total current liabilities	7,622	65,466	40,065	113,153
Noncurrent liabilities				
Noncurrent portion of long-term debt	45,922	120,000	39,964	205,886
TOTAL LIABILITIES	53,544	185,466	80,029	319,039
NET ASSETS				
Invested in capital assets, net of related debt	9,604	-	122,400	132,004
Unrestricted	23,222	(50,448)	20,384	(6,842)
TOTAL NET ASSETS	\$ 32,826	\$ (50,448)	\$ 142,784	\$ 125,162

See accompanying notes to financial statements.

City of Albion

Component Units

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
Economic Development Corporation	\$ 198,000	\$ 106,016	\$ 60,639	\$ (31,345)
Downtown Development Authority	122,567	-	89,500	(33,067)
Tax Increment Finance Authority	126,061	-	-	(126,061)
TOTALS	<u>\$ 446,628</u>	<u>\$ 106,016</u>	<u>\$ 150,139</u>	(190,473)
General revenues				
Property taxes				235,844
Investment earnings				13,403
Miscellaneous				<u>85,897</u>
Total general revenues				<u>335,144</u>
CHANGE IN NET ASSETS				144,671
Net assets, beginning of year				<u>(19,509)</u>
Net assets, end of year				<u>\$ 125,162</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albion is located in Calhoun County, Michigan and has a population of approximately 9,144. The City of Albion operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected for overlapping four (4) year terms. The Council elects one (1) of its members to serve as Mayor Pro-Tem. A Mayor is elected at large for a two (2) year term. The Council appoints the City Manager and City Attorney.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Albion (primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Blended Component Units

The Albion Building Authority is a five (5) member board governed by the City Council. One member of the board must be a resident of the Maple Grove Apartments. Its purpose under State Statute is to manage, maintain, develop, and acquire property for the City. It is reported in the Special Revenue and Debt Service fund categories.

The Library is governed by a five (5) member board, who are all appointed by the Mayor and City Council. Its purpose is to provide access to books, periodicals, and other printed media to the residents of the City. It is reported as a Special Revenue Fund.

The Albion Trust is governed by a three (3) member board appointed by current board members or by the City. Its purposes include construction of senior citizen facilities, supporting the debt of the Senior Citizen Facility, and other betterments to the City. It is reported in the Special Revenue Fund category.

The Albion Public Safety Officers' Pension Trust is governed by a five (5) member pension board that includes two (2) individuals chosen by the Mayor and the City Council. Its purpose is to operate the retirement system. It is reported in the Fiduciary Fund category.

3. Discretely Presented Component Units

The component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component units:

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

- a. Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC is governed jointly by a nine (9) member board with the Tax Increment Finance Authority.
- b. Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 9-12 members, is selected by the Mayor and City Council. In addition, the DDA's budget is subject to approval by the City Council.
- c. Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is governed jointly by a nine (9) member board with the Economic Development Corporation. The TIFA also acts as an agent for the Revolving Loan Fund, which is included as a Special Revenue Fund of the City.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- b. The Community Development Block Grant Fund is used to account for the financial resources used to improve the quality of the community.
- c. The Revolving Loan Fund is used to loan money to local businesses at low interest rates.
- d. The Albion Trust Fund is used to provide grant dollars for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility.
- e. The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion.
- f. The Sewer Fund is used to account for the operations required to provide sewer services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- g. The Water Fund is used to account for the operations required to provide water services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when, both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and major Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Six weeks prior to December 31, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. On or before the second regular council meeting in December, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the department level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Investments

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan and amounts due from component units for various payments and grants and accounts receivable for charges for services provided to local governmental units.

Due from other governmental units recorded in the component unit Economic Development Corporation consists of \$13,256 that had not yet been transferred to the EDC from the Tax Increment Finance Authority as of year-end.

11. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

12. Property Tax

The City of Albion bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Albion on July 1 and are payable without penalty through August 10. The July 1 levy is composed of the City's millage, delinquent assessments, and State Education Tax. All real property taxes not paid to the City by February 28 are turned over to the Calhoun County Treasurer for collection. The Calhoun County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection.

The City is permitted by charter to levy taxes up to 12.50 mills (\$12.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended December 31, 2005, the City levied 11.9736 mills per \$1,000 of taxable valuation for general governmental services. In addition, the City levied 2.9937 mills for street maintenance, 2.0000 mills for solid waste services, 1.2000 mills for debt service payments, 1.0000 mills for public safety services, and 0.8000 mills for recreational services. The total taxable value for the 2005 levy for property within the City was \$110,978,436.

13. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

14. Inventories

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**15. Accrued Compensated Absences**

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days according to contract or personnel policies. In the event of termination by retirement or death, an employee is paid for accumulated sick days according to contract or personnel policies.

16. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Equipment Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

17. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment	3 - 50 years
Infrastructure - streets and bridges	10 - 30 years
Vehicles	5 - 15 years
Sewer system	20 - 50 years
Water system	10 - 50 years

18. Long-term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash, cash equivalents, and investments in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of December 31, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 3,082,041	\$ 2,948,071
Certificates of deposit	<u>1,575,912</u>	<u>1,571,091</u>
Total Primary Government	4,657,953	4,519,162
FIDUCIARY FUNDS		
Checking	816,095	816,095

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUEDDeposits - continued

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
COMPONENT UNITS		
Checking and savings	\$ (38,831)	\$ (38,831)
Certificates of deposit	<u>125,819</u>	<u>125,819</u>
Total Component Units	<u>86,988</u>	<u>86,988</u>
TOTAL REPORTING ENTITY	<u>\$ 5,561,036</u>	<u>\$ 5,422,245</u>

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$2,036 and \$50, respectively, of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of December 31, 2005, the City accounts were insured by the FDIC for \$416,530 and the amount of \$5,005,715 was uninsured and uncollateralized.

As of December 31, 2005, the carrying amounts and market values for each investment are as follows:

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Federal Home Loan Bank	\$ 49,328	\$ 49,328	AAA	4.25 years
Federal National Mortgage Association	237,286	237,286	AAA	2.5 years
Federal Home Loan Marketing Association	191,876	191,876	AAA	6 years
U.S. Government Securities	221,537	221,537	AAA	7 years
Financing Corporation	110,414	110,414	AAA	28 days
Resolution Funding Corporation	55,693	55,693	AAA	40 days
Medium Term Note	193,510	193,510	AAA	7 years
UBS Bank Money Funds	160,252	160,252	N/A	30 days
Uncategorized pooled investment funds	219,661	219,661	N/A	N/A
Uncategorized pooled investment funds	136,046	136,046	N/A	N/A
Uncategorized pooled investment funds	<u>279,347</u>	<u>279,347</u>	N/A	N/A
Total primary government	1,854,950	1,854,950		
FIDUCIARY FUNDS				
U.S. Government Securities	3,412,200	3,412,200	AAA	7 years
Corporate Bonds and Notes	3,255,283	3,255,283	AAA	40 days
Common Equity Securities	7,964,707	7,962,886	AAA	1 year
Money Market Funds	<u>154,620</u>	<u>153,151</u>	N/A	N/A
Total fiduciary funds	14,786,810	14,783,520		

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments - continued

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>S & P Rating</u>	<u>Weighted Average Maturity</u>
COMPONENT UNITS				
Public Funds Investment Trust	\$ 14,603	\$ 14,603	AAA	10 years
Uncategorized pooled investment funds	<u>35,632</u>	<u>35,632</u>	N/A	N/A
Total component units	<u>50,235</u>	<u>50,235</u>		
TOTAL REPORTING ENTITY	<u>\$16,691,995</u>	<u>\$16,688,705</u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2005, rating information on the City's investments is presented above.

Interest rate risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The City has not adopted a policy that indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

Custodial credit risk

The City has not adopted a policy that indicates how the City will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 3,710,769	\$ 97,216	\$ 970,715	\$ 4,778,700
Cash and cash equivalents - restricted	219,869	-	-	219,869
Investments	<u>2,584,301</u>	<u>40,057</u>	<u>14,632,190</u>	<u>17,256,548</u>
	<u>\$ 6,514,939</u>	<u>\$ 137,273</u>	<u>\$15,602,905</u>	<u>\$22,255,117</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2005:

	<u>Bond Reserve</u>
Enterprise Funds	<u>\$ 219,869</u>

NOTE D: POOLING OF CASH AND INVESTMENTS

The City's balance sheet and statement of net assets reflect cash and investments with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of December 31, 2005, are as follows:

<u>Fund</u>	<u>Negative Pooled Cash</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
COMPONENT UNIT			
Tax Increment Finance Authority	\$(152,818)	\$ 121,444	\$(31,374)

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at December 31, 2005, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 77</u>
Due to Nonmajor governmental funds from:	
Community Development Block Grant Fund	<u>\$ 28</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 303,770
Nonmajor governmental funds	784,602
Albion Trust Fund	40,000
Library Trust Fund	22,862
Sewer Fund	1,300
Water Fund	<u>650</u>
	<u>\$ 1,153,184</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 390,906	\$ 30,000	\$ -	\$ 420,906
Capital assets being depreciated				
Buildings and improvements	3,193,940	50,000	-	3,243,940
Infrastructure	2,267,000	255,000	-	2,522,000
Equipment and furniture	671,153	27,487	-	698,640
Vehicles	<u>1,388,194</u>	<u>-</u>	<u>-</u>	<u>1,388,194</u>
Subtotal	7,520,287	332,487	-0-	7,852,774
Less accumulated depreciation for:				
Buildings and improvements	(1,725,940)	(63,600)	-	(1,789,540)
Infrastructure	(187,966)	(88,933)	-	(276,899)
Equipment and furniture	(422,942)	(53,462)	-	(476,404)
Vehicles	<u>(875,677)</u>	<u>(117,319)</u>	<u>-</u>	<u>(992,996)</u>
Subtotal	<u>(3,212,525)</u>	<u>(323,314)</u>	<u>-0-</u>	<u>(3,535,839)</u>
Net capital assets being depreciated	<u>4,307,762</u>	<u>9,173</u>	<u>-0-</u>	<u>4,316,935</u>
Capital assets, net	<u>\$ 4,698,668</u>	<u>\$ 39,173</u>	<u>\$ -0-</u>	<u>\$ 4,737,841</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 164,223
Public safety	5,494
Public works	90,997
Health and welfare	46,000
Community and economic development	6,000
Recreation and cultural	<u>10,600</u>
Total depreciation expense	<u>\$ 323,314</u>

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Construction in progress	<u>-</u>	<u>276,581</u>	<u>-</u>	<u>276,581</u>
	93,700	276,581	-0-	370,281

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Business-type activities - continued				
Capital assets being depreciated				
Buildings and improvements	\$ 9,740,075	\$ -	\$ -	\$ 9,740,075
Equipment	883,453	-	-	883,453
Water system	4,162,800	7,930	-	4,170,730
Sewer system	1,339,683	-	-	1,339,683
Vehicles	<u>514,689</u>	<u>-</u>	<u>-</u>	<u>514,689</u>
Subtotal	16,640,700	7,930	-0-	16,648,630
Less accumulated depreciation for:				
Buildings and improvements	(3,612,260)	(198,082)	-	(3,810,342)
Equipment	(716,877)	(40,489)	-	(757,366)
Water system	(1,766,669)	(85,642)	-	(1,852,311)
Sewer system	(510,506)	(20,842)	-	(531,348)
Vehicles	<u>(355,734)</u>	<u>(39,836)</u>	<u>-</u>	<u>(395,570)</u>
Subtotal	<u>(6,962,046)</u>	<u>(384,891)</u>	<u>-0-</u>	<u>(7,346,937)</u>
Net capital assets being depreciated	<u>9,678,654</u>	<u>(376,961)</u>	<u>-0-</u>	<u>9,301,693</u>
Capital assets, net	<u>\$ 9,772,354</u>	<u>\$ (100,380)</u>	<u>\$ -0-</u>	<u>\$ 9,671,974</u>
Component Units				
Component unit - EDC				
Capital assets not being depreciated:				
Land	\$ 41,655	\$ -	\$ -	\$ 41,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Less accumulated depreciation for				
Buildings	<u>(2,400)</u>	<u>(800)</u>	<u>-</u>	<u>(3,200)</u>
Net capital assets being depreciated	<u>17,600</u>	<u>(800)</u>	<u>-0-</u>	<u>16,800</u>
Capital assets, net	<u>\$ 59,255</u>	<u>\$ (800)</u>	<u>\$ -0-</u>	<u>\$ 58,455</u>
Component unit - TIFA				
Capital assets not being depreciated:				
Land	\$ 160,000	\$ -	\$ -	\$ 160,000
Capital assets being depreciated				
Buildings	45,000	-	-	45,000
Less accumulated depreciation for				
Buildings	<u>(18,000)</u>	<u>(1,800)</u>	<u>-</u>	<u>(19,800)</u>
Net capital assets being depreciated	<u>27,000</u>	<u>(1,800)</u>	<u>-0-</u>	<u>25,200</u>
Capital assets, net	<u>\$ 187,000</u>	<u>\$ (1,800)</u>	<u>\$ -0-</u>	<u>\$ 185,200</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended December 31, 2005.

	Balance Jan. 1, 2005	Additions	Reductions	Balance Dec. 31, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Transportation Bonds	\$ 40,000	\$ -	\$ 20,000	\$ 20,000	\$ 20,000
1997 General Obligation Bonds	1,305,000	-	70,000	1,235,000	75,000
Installment purchase agreements	545,000	-	73,522	471,478	84,249
EPA landfill liability	168,879	-	10,785	158,094	10,069
CDBG loan	59,509	-	15,869	43,640	15,869
Building Authority loan	90,436	-	7,102	83,334	6,361
Land contract	-	88,100	-	88,100	8,810
Accumulated compensated absences	<u>486,146</u>	<u>18,223</u>	<u>-</u>	<u>504,369</u>	<u>185,338</u>
	2,694,970	106,323	197,278	2,604,015	405,696
Business-type activities					
Revenue Bonds	1,445,000	-	75,000	1,370,000	80,000
Capital lease	40,428	-	30,017	10,411	10,411
Accumulated compensated absences	<u>202,546</u>	<u>6,420</u>	<u>-</u>	<u>208,966</u>	<u>59,829</u>
	<u>1,687,974</u>	<u>6,420</u>	<u>105,017</u>	<u>1,589,377</u>	<u>150,240</u>
TOTAL PRIMARY GOVERNMENT	4,382,944	112,743	302,295	4,193,392	555,936
COMPONENT UNITS					
Economic Development Corporation					
Land contract	51,583	-	2,732	48,851	2,929
Downtown Development Authority					
Revenue Bonds	240,000	-	60,000	180,000	60,000
Tax Increment Finance Authority					
CDBG loan	<u>85,636</u>	<u>-</u>	<u>22,836</u>	<u>62,800</u>	<u>22,836</u>
TOTAL COMPONENT UNITS	<u>377,219</u>	<u>-0-</u>	<u>85,568</u>	<u>291,651</u>	<u>85,765</u>
TOTAL REPORTING ENTITY	<u>\$ 4,760,163</u>	<u>\$ 112,743</u>	<u>\$ 387,863</u>	<u>\$ 4,485,043</u>	<u>\$ 641,701</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Unlimited Tax Bonds Payable

\$1,700,000 General Obligation Unlimited Tax Bonds Series 1997 dated June 1, 1997, due in annual installments ranging from \$75,000 to \$140,000 through October 1, 2017, with interest ranging from 4.95 to 5.25 percent, payable semi-annually.

\$ 1,235,000

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Transportation Bonds

\$150,000 Michigan Transportation Fund Bonds dated June 1, 1996, due in annual installments of \$20,000 through October 1, 2006, with interest at 5.60 percent, payable semi-annually.

\$ 20,000Revenue Bonds

\$1,800,000 Revenue Bonds dated June 1, 1997, due in annual installments ranging from \$80,000 to \$155,000 through October 1, 2017, with interest ranging from 5.2 to 5.25 percent, payable semi-annually.

\$ 1,370,000Capital Lease

The City has entered into a lease purchase agreement to finance the acquisition of a vector truck. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$136,344. The lease is due in monthly installments ranging from \$2,583 to \$2,622 through April 1, 2006, with interest at 5.99 percent, payable monthly.

\$ 10,411EPA Liability

The City is liable for half the operations and maintenance costs for the landfill cleanup, with annual installments ranging from \$2,202 to \$10,069 through 2028.

\$ 158,094Installment Purchase Agreements

\$400,000 Installment purchase agreement (fire truck) dated September 7, 2001, due in annual installments ranging from \$40,000 to \$60,000 through April 1, 2011, with interest at 4.40 percent, payable semi-annually.

\$ 290,000

\$225,000 Installment purchase agreement (computers) dated June 14, 2004, due in annual installments ranging from \$44,249 to \$46,503 through September 1, 2009, with interest at 3.34 percent, payable semi-annually.

181,478\$ 471,478Land Contract

\$88,100 Land contract dated May 6, 2005, due in semi-annual installments of \$4,405 through September 1, 2015, with interest at 3.99 percent, payable semi-annually.

\$ 88,100Building Authority Loan

\$110,000 Installment purchase agreement (EDC/DDA Building) dated February 1, 2001, due in monthly installments ranging from \$546 to \$47,733 through January 1, 2011, with interest at 5.5 percent, payable monthly.

\$ 83,334

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights include related payroll taxes which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$713,335 at December 31, 2005. Of this amount, \$504,369 and \$208,966 are shown as accrued liabilities within the governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTED

Revenue Bonds

\$500,000 DDA Streetscape Revenue Bonds dated November 1, 1998, due in annual installments of \$60,000 through April 1, 2008, with interest ranging from 6.00 to 6.15 percent, payable semi-annually.

\$ 180,000

Land Contract

\$70,000 Land contract dated April 1, 2002, due in monthly installments of \$521, including interest at 7.0 percent, through April 1, 2017.

\$ 48,851

CDBG Loan

\$193,526 2003 CDBG Loan received by the City from the State for industrial park improvements. The City will be required to make quarterly payments of \$9,676 through November 1, 2008.

Since the land purchase benefited both the TIFA district and the City as a whole, the loan proceeds were recorded in both the Tax Increment Finance Authority Fund and the Major Street Fund.

The outstanding balances as of December 31, 2005, were as follows:

Major Street Fund	\$ 43,640
Tax Increment Finance Authority Fund	<u>62,800</u>
	<u>\$ 106,440</u>

The annual requirements to pay the debt principal and interest outstanding for the Bonds, Notes, and other obligations are as follows:

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: LONG-TERM DEBT - CONTINUED

Primary Government

Year Ending December 31,	Revenue Bonds		General Obligation Unlimited Tax Bonds		Loans Payable		Land Contract	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 80,000	\$ 143,170	\$ 75,000	\$ 64,162	\$ 45,066	\$ 4,426	\$ 8,810	\$ 4,550
2007	85,000	134,850	80,000	60,450	45,425	4,066	8,810	3,076
2008	90,000	126,010	80,000	56,450	36,129	3,687	8,810	2,724
2009	95,000	116,650	85,000	52,370	7,499	3,286	8,810	2,373
2010	105,000	106,770	90,000	47,993	7,922	2,863	8,810	2,021
2011-2015	615,000	358,760	555,000	161,438	47,733	219	44,050	4,833
2016-2020	300,000	47,776	270,000	21,525	-	-	-	-
2021-2025	-	-	-	-	-	-	-	-
2026-2028	-	-	-	-	-	-	-	-
	<u>\$ 1,370,000</u>	<u>\$ 1,033,986</u>	<u>\$ 1,235,000</u>	<u>\$ 464,388</u>	<u>\$ 189,774</u>	<u>\$ 18,547</u>	<u>\$ 88,100</u>	<u>\$ 19,577</u>

Year Ending December 31,	Transportation Fund Bonds		Installment Purchase Agreement		Capital Lease		EPA Liability	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 20,000	\$ 2,240	\$ 84,249	\$ 17,941	\$ 10,411	\$ 130	\$ 10,069	\$ -
2007	-	-	84,988	14,703	-	-	9,420	-
2008	-	-	95,739	11,221	-	-	9,947	-
2009	-	-	96,502	7,493	-	-	8,228	-
2010	-	-	50,000	3,740	-	-	7,689	-
2011-2015	-	-	60,000	1,320	-	-	32,344	-
2016-2020	-	-	-	-	-	-	21,735	-
2021-2025	-	-	-	-	-	-	13,847	-
2026-2028	-	-	-	-	-	-	44,815	-
	<u>\$ 20,000</u>	<u>\$ 2,240</u>	<u>\$ 471,478</u>	<u>\$ 56,418</u>	<u>\$ 10,411</u>	<u>\$ 130</u>	<u>\$ 158,094</u>	<u>\$ -0-</u>

Component Units

Year Ending December 31,	General Obligation Bonds		Land Contract	
	Principal	Interest	Principal	Interest
2006	\$ 60,000	\$ 21,840	\$ 2,929	\$ 3,327
2007	60,000	14,640	3,141	3,115
2008	60,000	7,380	3,368	2,888
2009	-	-	3,611	2,644
2010	-	-	3,872	2,383
2011-2015	-	-	23,988	7,291
2016-2020	-	-	7,942	399
2021-2025	-	-	-	-
2026-2028	-	-	-	-
	<u>\$ 180,000</u>	<u>\$ 43,860</u>	<u>\$ 48,851</u>	<u>\$ 22,047</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE I: RETIREMENT PLAN**PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY)**Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees (other than public safety employees) of the City. The City also participates in the MERS defined contribution plan. That plan is administered by the ICMA. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For the year ended December 31, 2005, the City did not contribute to the plan because their actuarial accrued liability was overfunded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$14,212,374	\$14,437,515	\$14,600,587
Actuarial accrued liability (AAL) (entry age)	10,572,878	10,905,830	10,696,728
Unfunded (overfunded) AAL	(3,639,496)	(3,531,685)	(3,903,859)
Funded ratio	134 %	132 %	136 %
Covered payroll	1,740,941	1,737,531	1,595,627
UAAL as a percentage of covered payroll	209 %	203 %	245 %

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE I: RETIREMENT PLAN - CONTINUED**PUBLIC SAFETY**Plan Description

The City participates in the Public Safety Officers' Pension Fund, a single-employer defined benefit pension plan that covers all eligible full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Public Safety Officers' Pension Fund does not issue a publicly available financial report.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires a 4% contribution from the employees.

Annual Pension Cost

For the year ended December 31, 2005, the City did not contribute to the plan because their actuarial accrued liability was over funded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual contributions to the retirement system are based on a level percent of payroll. Significant actuarial assumptions used include (a) a 6.00 percent investment rate of return; (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0.2% to 4.0% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a remaining period of seventeen (17) years.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$13,944,641	\$13,967,120	\$14,189,742
Actuarial accrued liability (AAL) (entry age)	8,287,080	8,805,582	9,217,404
Unfunded (overfunded) AAL	(5,657,561)	(5,161,538)	(4,972,338)
Funded ratio	168 %	159 %	154%
Covered payroll	1,198,774	1,351,980	1,290,940
UAAL as a percentage of covered payroll	472 %	382 %	385%

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE J: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE K: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2005:

Fund Balances

Primary Government

General Fund

Reserved for prepaids	\$ 67,388
Reserved for park fence	<u>16,530</u>
	83,918

Nonmajor Special Revenue Funds

Major Street

Reserved for prepaids	5,265
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Local Street

Reserved for prepaids	5,265
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Library

Reserved for prepaids	935
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Reserved for library activities	177,120
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Albion Building Authority

Reserved for prepaids	<u>2,760</u>
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191,345

Nonmajor Debt Service Funds

Michigan Transportation Bonds

Reserved for debt service	38,706
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G.O. Water Bonds

Reserved for debt service	14,946
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Fire Truck Loan

Reserved for debt service	<u>4</u>
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53,656

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE K: FUND EQUITY RESERVES - CONTINUEDFund Balances

Primary Government - continued

Permanent Funds

Library Trust Fund

Reserved for library trust \$ 991,361

Cemetery Perpetual Care

Reserved for perpetual care 370,5481,361,909Total primary government \$ 1,690,828

Fiduciary Fund

Private Purpose Trust

Held in Trust for Private Purposes \$15,010,619

Component Units

Downtown Development Authority

Reserved for prepaids \$ 535

Tax Increment Finance Authority

Reserved for prepaids 67Total component units \$ 602**NOTE L: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2005:

PRIMARY GOVERNMENT

Governmental Activities

Debt Service \$ 29,828

Other Purposes

Streets and highways \$ 208,775**NOTE M: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance or net assets. The effect on operations and other affected balances for the current and prior year are as follows:

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE M: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	December 31,		
	<u>2005</u>	<u>2004</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Funds			
General Fund			
Accounts receivable	\$ -	\$(19,295)	To correct overstated
Revenues over (under) expenditures	-	(19,295)	accounts receivable
Fund balance - beginning	(19,295)	-	
Cash	-	(53,403)	To correct overstated
Revenues over (under) expenditures	-	(53,403)	cash
Fund balance - beginning	(53,403)	-	
Community Development Block Grant			
Interest receivable	-	(87,291)	To correct overstated
Revenues over (under) expenditures	-	(87,291)	interest receivable
Fund balance - beginning	(87,291)	-	
Governmental Activities			
Accounts receivable	-	(19,295)	To correct overstated
Revenues over (under) expenses	-	(19,295)	accounts receivable
Net assets - beginning	(19,295)	-	
Cash	-	(53,403)	To correct overstated
Revenues over (under) expenses	-	(53,403)	cash
Net assets - beginning	(53,403)	-	
Interest receivable	-	(87,291)	To correct overstated
Revenues over (under) expenses	-	(87,291)	interest receivable
Net assets - beginning	(87,291)	-	
Business-type Activities			
Water Fund			
Accrued interest payable	-	(20,540)	To correct overstated
Change in net assets	-	20,540	accrued interest payable
Net assets - beginning	20,540	-	

NOTE N: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees upon retirement in accordance with labor contracts. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended December 31, 2005, those costs for employees that retired from departments other than public safety totaled \$7,200. The benefits for public safety retirees are paid through the City of Albion Public Safety Officers' Retirement System.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE N: POST-EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. This pronouncement is effective for the City of Albion for the year ended December 31, 2009.

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2005, the City incurred expenditures in the General Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Human resources	\$ 45,322	\$ 47,223	\$ 1,901
Attorney	70,865	71,049	184
Municipal building	77,685	78,523	838
Public works			
Highways and streets	165,566	173,006	7,440
Community and economic development			
Planning	78,763	79,017	254
Special Revenue Funds			
Community Development Block Grant Fund	50	12,269	12,219

NOTE P: CONTRACTUAL COMMITMENT

The City has entered into a contract to replace the waste water treatment plant digester cover. The contractual commitment outstanding at December 31, 2005 totaled \$121,000. The City has adequate fund equity to cover this commitment.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE Q: CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000, is as follows:

Deficit at December 31, 2004	\$(123,731)
Construction code revenue	11,208
Related expenses - Direct costs	<u>(67,463)</u>
Deficit at December 31, 2005	<u>\$(179,986)</u>

NOTE R: CONTINGENCIES

The Environmental Protection Agency (EPA) has identified the City as one of the potentially responsible parties for the contamination of a landfill used by the City and has named the City in an action filed in 1997 seeking to recover the EPA's past service costs and oversight costs. The parties negotiated settlement calling for the City to make certain settlement payments and conduct operations and maintenance work jointly with another party. On July 1, 2004, the City made its final installment payment to the EPA. The land operation and maintenance work continues at the site. The Michigan Department of Environmental Quality (MDEQ) is also seeking to recover response costs in a related but separate claim filed in March 1999. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In November 1997, the MDEQ also notified the City that another property within the City had been identified as a site of alleged environmental contamination and that the City is the alleged responsible owner of this site. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In addition, the City has informed the Michigan Department of Natural Resources (now known as MDEQ) of two (2) leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. Semi-Annual Groundwater Monitoring Reports are submitted to the MDEQ and a Closure Request is currently pending before the MDEQ for one (1) of the sites. Sufficient information is not available at this time to determine the amount of potential losses, if any, to the City which might result from these matters.

There are various other legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City management and legal counsel to be immaterial.

A charitable tax exempt organization purchased property located in the City from another organization that was in bankruptcy. The property was placed on the tax rolls during 2004. The current owner of the property appealed to the Michigan Tax Tribunal claiming the property remains exempt from tax and also contested the assessed value. A settlement was reached in 2006 related to the assessed value, however the terms of the settlement were not yet available.

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 1,455,000	\$ 1,489,307	\$ 1,481,831	\$ (7,476)
Income taxes	1,030,000	1,037,112	1,126,096	88,984
Payments in lieu of taxes	6,700	6,700	6,736	36
Penalties and interest	12,500	23,500	24,327	827
Administration fees	40,000	40,000	43,561	3,561
Total taxes	2,544,200	2,596,619	2,682,551	85,932
Licenses and permits	63,450	68,298	55,513	(12,785)
Intergovernmental				
Federal/State	1,310,131	1,399,325	1,373,463	(25,862)
Local	83,570	83,570	72,276	(11,294)
Total intergovernmental	1,393,701	1,482,895	1,445,739	(37,156)
Charges for services				
USDA food program	30,500	30,500	30,003	(497)
Cemetery	36,000	55,000	61,721	6,721
Parks and recreation	9,000	12,500	12,577	77
Other fees	188,615	195,615	209,844	14,229
Total charges for services	264,115	293,615	314,145	20,530
Fines and forfeits	65,000	65,000	57,379	(7,621)
Interest and rents	12,000	71,300	74,758	3,458
Other				
Contributions	8,000	8,000	669	(7,331)
Reimbursements	28,500	110,850	102,123	(8,727)
Other	48,700	54,325	79,044	24,719
Total other	85,200	173,175	181,836	8,661
TOTAL REVENUES	4,427,666	4,750,902	4,811,921	61,019

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
City Council	\$ 31,052	\$ 31,052	\$ 30,499	\$ 553
City Manager	85,051	85,051	79,542	5,509
Human resources	45,322	45,322	47,223	(1,901)
Assessor	82,346	82,346	80,350	1,996
Attorney	70,865	70,865	71,049	(184)
Clerk/treasurer	327,779	327,779	306,080	21,699
Municipal building	77,685	77,685	78,523	(838)
Cemetery	139,880	139,880	131,333	8,547
Other	59,026	174,326	154,010	20,316
Total general government	919,006	1,034,306	978,609	55,697
Public safety				
Police and fire	2,323,859	2,323,859	2,216,969	106,890
Code enforcement	84,567	84,567	67,463	17,104
Total public safety	2,408,426	2,408,426	2,284,432	123,994
Public works				
Engineering	21,786	23,786	23,750	36
Highways and streets	165,566	165,566	173,006	(7,440)
Tree trimming	5,000	5,000	1,380	3,620
Total public works	192,352	194,352	198,136	(3,784)
Health and welfare				
Environmental expenditures	16,000	66,650	66,621	29
USDA food program	34,000	34,000	31,671	2,329
Total health and welfare	50,000	100,650	98,292	2,358
Community and economic development				
Planning	78,763	78,763	79,017	(254)
Other	36,110	36,110	36,110	-0-
Total community and economic development	114,873	114,873	115,127	(254)

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Recreation and cultural				
Parks and recreation	\$ 317,817	\$ 361,413	\$ 320,161	\$ 41,252
Other	180,800	226,000	206,942	19,058
TOTAL EXPENDITURES	4,183,274	4,440,020	4,201,699	238,321
EXCESS OF REVENUES OVER EXPENDITURES	244,392	310,882	610,222	299,340
OTHER FINANCING USES				
Transfers out	(244,392)	(310,882)	(303,770)	7,112
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	306,452	306,452
Fund balance, beginning of year	411,677	411,677	411,677	-0-
Prior period adjustments	-	-	(72,698)	(72,698)
Fund balance, end of year	\$ 411,677	\$ 411,677	\$ 645,431	\$ 233,754

City of Albion

Community Development Block Grant Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charge for services	\$ -	\$ -	\$ 1,039	\$ 1,039
Interest and rents	2,300	2,300	7,828	5,528
TOTAL REVENUES	2,300	2,300	8,867	6,567
EXPENDITURES				
Community and economic development	-	50	12,269	(12,219)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,300	2,250	(3,402)	(5,652)
OTHER FINANCING SOURCES				
Transfers in	-	27,100	-	(27,100)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	2,300	29,350	(3,402)	(32,752)
Fund balance, beginning of year	424,091	424,091	424,091	-0-
Prior period adjustments	-	-	(87,291)	(87,291)
Fund balance, end of year	<u>\$ 426,391</u>	<u>\$ 453,441</u>	<u>\$ 333,398</u>	<u>\$ (120,043)</u>

City of Albion

Revolving Loan Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charges for services	\$ -	\$ -	\$ 52,322	\$ 52,322
Interest	8,200	8,200	12,854	4,654
TOTAL REVENUES	8,200	8,200	65,176	56,976
EXPENDITURES				
Community and economic development	6,078	6,078	3,638	2,440
EXCESS OF REVENUES OVER EXPENDITURES	2,122	2,122	61,538	59,416
OTHER FINANCING USES				
Transfers out	(2,122)	(2,122)	-	2,122
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	61,538	61,538
Fund balance, beginning of year	381,753	381,753	381,753	-0-
Fund balance, end of year	<u>\$ 381,753</u>	<u>\$ 381,753</u>	<u>\$ 443,291</u>	<u>\$ 61,538</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest	\$ -	\$ -	\$ 19,270	\$ 19,270
EXPENDITURES				
General government	-	-	41	(41)
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	19,229	19,229
OTHER FINANCING USES				
Transfers out	-	-	(40,000)	(40,000)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	(20,771)	(20,771)
Fund balance, beginning of year	1,240,667	1,240,667	1,240,667	-0-
Fund balance, end of year	<u>\$ 1,240,667</u>	<u>\$ 1,240,667</u>	<u>\$ 1,219,896</u>	<u>\$ (20,771)</u>

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2005

	Special Revenue		
	Major Street	Local Street	Solid Waste
ASSETS			
Cash and cash equivalents	\$ 103,373	\$ 38,359	\$ 205,860
Investments	-	-	-
Accounts receivable	-	-	6,686
Taxes receivable	-	-	17,528
Prepays	5,265	5,265	-
Due from other funds	-	-	-
Due from other governmental units	57,258	12,418	-
TOTAL ASSETS	<u>\$ 165,896</u>	<u>\$ 56,042</u>	<u>\$ 230,074</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,421	\$ -	\$ 611
Accrued liabilities	3,742	-	-
Deferred revenue	-	-	28,065
Due to other funds	-	-	-
Due to other governmental units	-	-	-
TOTAL LIABILITIES	13,163	-0-	28,676
FUND BALANCES			
Reserved for			
Prepays	5,265	5,265	-
Library activities	-	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved - undesignated	147,468	50,777	201,398
TOTAL FUND BALANCES	<u>152,733</u>	<u>56,042</u>	<u>201,398</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 165,896</u>	<u>\$ 56,042</u>	<u>\$ 230,074</u>

Funds			Debt Service Funds		
Drug Law Enforcement	Library	Albion Building Authority	Michigan Transportation Bond	G.O. Water Bonds	ABA Bonds
\$ 29,788	\$ 179,638	\$ 392,744	\$ 38,706	\$ 16,825	\$ -
-	-	-	-	-	-
1,442	-	-	-	926	-
-	-	-	-	14,161	-
-	935	2,760	-	-	-
-	-	28	-	-	-
-	-	-	-	-	-
<u>\$ 31,230</u>	<u>\$ 180,573</u>	<u>\$ 395,532</u>	<u>\$ 38,706</u>	<u>\$ 31,912</u>	<u>\$ -0-</u>
\$ -	\$ 2,513	\$ 2,430	\$ -	\$ -	\$ -
11,306	-	26,634	-	-	-
-	-	-	-	16,672	-
-	-	77	-	-	-
-	5	-	-	294	-
<u>11,306</u>	<u>2,518</u>	<u>29,141</u>	<u>-0-</u>	<u>16,966</u>	<u>-0-</u>
-	935	2,760	-	-	-
-	177,120	-	-	-	-
-	-	-	-	-	-
-	-	-	38,706	14,946	-
<u>19,924</u>	<u>-</u>	<u>363,631</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>19,924</u>	<u>178,055</u>	<u>366,391</u>	<u>38,706</u>	<u>14,946</u>	<u>-0-</u>
<u>\$ 31,230</u>	<u>\$ 180,573</u>	<u>\$ 395,532</u>	<u>\$ 38,706</u>	<u>\$ 31,912</u>	<u>\$ -0-</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2005

	<u>Debt Service Funds - continued</u>		<u>Capital</u>
	<u>Fire Truck Loan</u>	<u>EDC & DDA Building</u>	<u>Street Improvements</u>
ASSETS			
Cash and cash equivalents	\$ 4	\$ -	\$ 4,021
Investments	-	-	-
Accounts receivable	-	-	-
Taxes receivable	-	-	40,496
Prepays	-	-	-
Due from other funds	-	-	-
Due from other governmental units	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 4</u>	<u>\$ -0-</u>	<u>\$ 44,517</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Deferred revenue	-	-	34,747
Due to other funds	-	-	-
Due to other governmental units	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	-0-	-0-	34,747
FUND BALANCES			
Reserved for			
Prepays	-	-	-
Library activities	-	-	-
Perpetual care	-	-	-
Debt service	4	-	-
Unreserved - undesignated	-	-	9,770
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	<u>4</u>	<u>-0-</u>	<u>9,770</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4</u>	<u>\$ -0-</u>	<u>\$ 44,517</u>

Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ -	\$ 43,465	\$ 353,923	\$ 1,406,706
-	-	16,625	16,625
-	-	-	9,054
-	-	-	72,185
-	-	-	14,225
-	-	-	28
-	-	-	69,676
<u>\$ -0-</u>	<u>\$ 43,465</u>	<u>\$ 370,548</u>	<u>\$ 1,588,499</u>

\$ -	\$ -	\$ -	\$ 14,975
-	-	-	41,682
-	-	-	79,484
-	-	-	77
-	-	-	299

-0-	-0-	-0-	136,517
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-	-	-	14,225
-	-	-	177,120
-	-	370,548	370,548
-	-	-	53,656
-	43,465	-	836,433
<u>-0-</u>	<u>43,465</u>	<u>370,548</u>	<u>1,451,982</u>
<u>\$ -0-</u>	<u>\$ 43,465</u>	<u>\$ 370,548</u>	<u>\$ 1,588,499</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	Special Revenue		
	Major Street	Local Street	Solid Waste
REVENUES			
Taxes	\$ -	\$ -	\$ 219,494
Intergovernmental	473,057	145,430	-
Charges for services	5,477	-	454
Fines and forfeits	-	-	-
Interest and rents	500	-	-
Other	-	173	3,737
TOTAL REVENUES	479,034	145,603	223,685
EXPENDITURES			
General government	-	-	-
Public safety	-	-	-
Public works	387,938	271,259	196,161
Community and economic development	-	-	-
Debt service			
Principal	15,869	-	-
Interest and fiscal fees	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	403,807	271,259	196,161
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	75,227	(125,656)	27,524
OTHER FINANCING SOURCES (USES)			
Land contract	-	-	-
Transfers in	65,500	111,500	-
Transfers out	(135,330)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(69,830)	111,500	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,397	(14,156)	27,524
Fund balances, beginning of year	147,336	70,198	173,874
Fund balances, end of year	\$ 152,733	\$ 56,042	\$ 201,398

Funds			Debt Service Funds		
Drug Law Enforcement	Library	Albion Building Authority	Michigan Transportation Bond	G.O. Water Bonds	ABA Bonds
\$ -	\$ 31,661	\$ -	\$ -	\$ 139,088	\$ -
-	9,815	255,016	-	-	-
-	53,839	-	-	7,157	-
-	41,567	-	-	-	-
-	889	214,668	-	-	-
11,330	29,558	6,915	-	-	-
11,330	167,329	476,599	-0-	146,245	-0-
-	425,626	-	-	-	-
5,320	-	-	-	-	-
-	-	-	-	-	-
-	-	274,411	-	-	-
-	-	-	20,000	70,000	-
-	-	-	2,230	72,249	-
-	-	88,100	-	-	-
5,320	425,626	362,511	22,230	142,249	-0-
6,010	(258,297)	114,088	(22,230)	3,996	-0-
-	-	88,100	-	-	-
-	267,028	22,985	22,530	-	-
-	-	(10,787)	-	-	(22,985)
-0-	267,028	100,298	22,530	-0-	(22,985)
6,010	8,731	214,386	300	3,996	(22,985)
13,914	169,324	152,005	38,406	10,950	22,985
<u>\$ 19,924</u>	<u>\$ 178,055</u>	<u>\$ 366,391</u>	<u>\$ 38,706</u>	<u>\$ 14,946</u>	<u>\$ -0-</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2005

	<u>Debt Service Funds - continued</u>		<u>Capital</u>
	<u>Fire Truck Loan</u>	<u>EDC & DDA Building</u>	<u>Street Improvements</u>
REVENUES			
Taxes	\$ -	\$ -	\$ 328,107
Intergovernmental	-	-	-
Charges for services	-	-	-
Fines and Forfeits	-	-	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	-0-	-0-	328,107
EXPENDITURES			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Community and economic development	-	-	-
Debt service			
Principal	30,000	7,102	-
Interest and fiscal fees	13,416	3,685	-
Capital outlay	-	-	239,117
TOTAL EXPENDITURES	43,416	10,787	239,117
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(43,416)	(10,787)	88,990
OTHER FINANCING SOURCES (USES)			
Land contract	-	-	-
Transfers in	43,420	10,787	250,000
Transfers out	-	-	(365,500)
TOTAL OTHER FINANCING SOURCES (USES)	43,420	10,787	(115,500)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4	-0-	(26,510)
Fund balances, beginning of year	-	-	36,280
Fund balances, end of year	\$ 4	\$ -0-	\$ 9,770

Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ -	\$ -	\$ -	\$ 718,350
-	-	-	883,318
-	-	3,000	69,927
-	-	-	41,567
110	-	643	216,810
-	-	374	52,087
110	-0-	4,017	1,982,059
7,241	-	-	432,867
-	-	-	5,320
-	-	-	855,358
-	-	-	274,411
43,522	-	-	186,493
8,912	-	-	100,492
50,600	8,670	-	386,487
110,275	8,670	-0-	2,241,428
(110,165)	(8,670)	4,017	(259,369)
-	-	-	88,100
59,434	300,000	-	1,153,184
-	(250,000)	-	(784,602)
59,434	50,000	-0-	456,682
(50,731)	41,330	4,017	197,313
50,731	2,135	366,531	1,254,669
\$ -0-	\$ 43,465	\$ 370,548	\$ 1,451,982

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2005

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 201,238	\$ 462,110	\$ 663,348
Taxes receivable	-	56,892	56,892
Other assets	-	11,576	11,576
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 201,238</u>	<u>\$ 530,578</u>	<u>\$ 731,816</u>
 LIABILITIES			
Due to State	\$ -	\$ 35,244	\$ 35,244
Due to County	-	100,602	100,602
Due to Schools	-	394,732	394,732
Due to others	201,238	-	201,238
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 201,238</u>	<u>\$ 530,578</u>	<u>\$ 731,816</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2005

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash	\$ 215,664	\$ 91,703	\$ 307,367
Investments	14,632,190	-	14,632,190
Interest receivable	71,062	-	71,062
TOTAL ASSETS	\$ 14,918,916	\$ 91,703	\$ 15,010,619
NET ASSETS			
Held in trust for private purposes	\$ 14,918,916	\$ 91,703	\$ 15,010,619

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2005

	Public Safety Officers' Pension	Retiree Health Care	Total
ADDITIONS			
Investment income			
Interest and dividends	\$ 487,963	\$ 32,200	\$ 520,163
Net decrease in fair value of investments	(130,823)	-	(130,823)
Gain on sales of investments	854,033	-	854,033
Less investment expenses	(26,507)	-	(26,507)
Net investment income	1,184,666	32,200	1,216,866
Contributions			
Employer	50,591	-	50,591
TOTAL ADDITIONS	1,235,257	32,200	1,267,457
DEDUCTIONS			
Benefit payments	655,035	-	655,035
Administrative expenses	101,793	-	101,793
TOTAL DEDUCTIONS	756,828	-0-	756,828
CHANGE IN NET ASSETS	478,429	32,200	510,629
Net assets, beginning of year	14,440,487	59,503	14,499,990
Net assets, end of year	\$ 14,918,916	\$ 91,703	\$ 15,010,619

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2005

	Economic Development	Business Incubator	Total
ASSETS			
Cash and cash equivalents	\$ 5,380	\$ 1,917	\$ 7,297
Accounts receivable	-	7,362	7,362
Due from other governmental units	13,256	-	13,256
TOTAL ASSETS	<u>\$ 18,636</u>	<u>\$ 9,279</u>	<u>\$ 27,915</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 647	\$ 1,741	\$ 2,388
Accrued liabilities	1,537	-	1,537
Deferred revenue	768	-	768
TOTAL LIABILITIES	2,952	1,741	4,693
FUND BALANCES			
Unreserved - undesignated	15,684	7,538	23,222
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,636</u>	<u>\$ 9,279</u>	<u>\$ 27,915</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2005

Total fund balances - governmental funds \$ 23,222

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 61,655	
Accumulated depreciation is	<u>(3,200)</u>	
Capital assets, net		58,455

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Land contract	<u>(48,851)</u>
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Net assets of governmental activities \$ 32,826

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2005

	Economic Development	Business Incubator	Total
REVENUES			
Intergovernmental	\$ 60,639	\$ -	\$ 60,639
Interest and rents	71,500	34,516	106,016
Other	44,296	6,109	50,405
TOTAL REVENUES	176,435	40,625	217,060
EXPENDITURES			
Current			
Community and economic development	156,538	37,138	193,676
Debt service	6,256	-	6,256
TOTAL EXPENDITURES	162,794	37,138	199,932
EXCESS OF REVENUES OVER EXPENDITURES	13,641	3,487	17,128
Fund balances, beginning of year	2,043	4,051	6,094
Fund balances, end of year	\$ 15,684	\$ 7,538	\$ 23,222

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2005

Net change in fund balances - governmental funds \$ 17,128

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (800)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Land contract payments 2,732

Change in net assets of governmental activities \$ 19,060

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2005

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
ASSETS			
Cash	\$ 116,673	\$ 4,620	\$ 121,293
Taxes receivable	13,190	-	13,190
Prepays	535	-	535
TOTAL ASSETS	<u>\$ 130,398</u>	<u>\$ 4,620</u>	<u>\$ 135,018</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6	\$ -	\$ 6
FUND BALANCES			
Reserved for prepaids	535	-	535
Unreserved - undesignated	129,857	4,620	134,477
TOTAL FUND BALANCES	<u>130,392</u>	<u>4,620</u>	<u>135,012</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 130,398</u>	<u>\$ 4,620</u>	<u>\$ 135,018</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2005

Total fund balances - governmental funds \$ 134,477

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	5,460	
Revenue bonds	<u>180,000</u>	
		<u>(185,460)</u>

Net assets of governmental activities \$ (50,983)

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2005

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
REVENUES			
Taxes	\$ 111,441	\$ -	\$ 111,441
Intergovernmental			
Federal/State	70,500	-	70,500
Local	15,000	-	15,000
Interest	394	-	394
Other	39,492	-	39,492
TOTAL REVENUES	236,827	-0-	236,827
EXPENDITURES			
Current			
Community and economic development	111,122	-	111,122
Debt service			
Principal	-	60,000	60,000
Interest and fiscal fees	-	13,215	13,215
TOTAL EXPENDITURES	111,122	73,215	184,337
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	125,705	(73,215)	52,490
OTHER FINANCING SOURCES (USES)			
Transfers in	-	74,985	74,985
Transfers out	(74,985)	-	(74,985)
TOTAL OTHER FINANCING SOURCES (USES)	(74,985)	74,985	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	50,720	1,770	52,490
Fund balances, beginning of year	79,672	2,850	82,522
Fund balances, end of year	\$ 130,392	\$ 4,620	\$ 135,012

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2005

Net change in fund balances - governmental funds **\$ 52,490**

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Decrease in accrued interest payable	1,770	
Bond principal retirements	<u>60,000</u>	
		<u>61,770</u>

Change in net assets of governmental activities **\$ 114,260**

City of Albion

Component Unit Fund

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2005

ASSETS

Cash and cash equivalents	\$ (31,374)
Investments	40,057
Accounts receivable	538
Taxes receivable	28,324
Due from other governmental units	1
Prepays	67

TOTAL ASSETS	<u>\$ 37,613</u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 861
Accrued liabilities	3,112
Due to other governmental units	<u>13,256</u>

TOTAL LIABILITIES	17,229
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FUND BALANCE

Reserved for prepaids	67
Unreserved - undesignated	<u>20,317</u>

TOTAL FUND BALANCE	<u>20,384</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 37,613</u>
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City of Albion

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - TAX INCREMENT FINANCE AUTHORITY

December 31, 2005

Total fund balance - governmental fund \$ 20,384

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	205,000	
Accumulated depreciation is	<u>(19,800)</u>	
Capital assets, net		185,200

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

CDBG loan	<u>(62,800)</u>	
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Net assets of governmental activities \$ 142,784

City of Albion

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2005

REVENUES	
Taxes	\$ 124,403
Interest and rents	<u>13,009</u>
TOTAL REVENUES	137,412
EXPENDITURES	
Current	
Community and economic development	124,261
Debt service	
Principal	<u>22,836</u>
TOTAL EXPENDITURES	<u>147,097</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(9,685)
Fund balance, beginning of year	<u>30,069</u>
Fund balance, end of year	<u><u>\$ 20,384</u></u>

City of Albion

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$ (9,685)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(1,800)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

CDBG loan payments	<u>22,836</u>
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Change in net assets of governmental activities	<u><u>\$ 11,351</u></u>
--	--------------------------------

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of City Council
City of Albion
Albion, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2005, which collectively comprise the City of Albion's basic financial statements and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Albion's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable condition:

2004-2 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that at the present time, the City does not have sufficient segregation of duties in various functions, especially in the areas of cash receipts and disbursements. This issue was noted and reported in our audit comments last year. During the course of our audit, the following specific conditions were noted:

- a. One individual is able to create new vendors and also process and mail accounts payable disbursements.
- b. One individual is able to open the mail and also enter receipts into the general ledger. In addition, a log of mail receipts is not maintained and reviewed at an appropriate level of management.
- c. Income taxes are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- d. Utility receivable amounts are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- e. Payroll reports and disbursements are not reviewed by someone independent of the payroll preparation process.

2004-2 SEGREGATION OF DUTIES - CONTINUED

Criteria: Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Effect: While this is a common occurrence in many organizations due to the limited number of employees, the City Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the City's management must provide a greater review and supervision of employee functions and procedures.

Recommendation: We recommend that the City's management review various areas of operation and consider additional segregation of duties to provide better internal controls. We also recommend that when the City Council is adopting new or modifying existing financial policies, they consider the potential impact that fraud or misappropriation may have on the City and assure that the policies address ways to prevent, deter, and detect fraud.

Corrective Action Response: Management of the City is currently reviewing procedures related to separation of duties in order to consider implementing changes that will comply with the cited requirements.

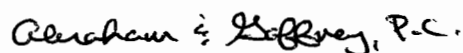
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above item to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described below:

We noted certain matters that we reported to management of the City of Albion in a separate letter dated April 13, 2006.

This report is intended solely for the information and use of management and City Council of the City of Albion, Michigan, the Federal awarded agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

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MANAGEMENT LETTER

To the Honorable Mayor
and Members of the City Council
City of Albion
Albion, Michigan

As you know, we have recently completed our audit of the records of the City of Albion for the year ended December 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The City should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the City had outstanding checks listed on their Pooled Cash bank reconciliation that were up to six (6) years old. The Michigan Public Act 29 of 1995 provides that the City report and escheat unclaimed property to the State of Michigan in the year after they have been outstanding for more than one year. This issue was noted and reported in our audit comments last year.

We suggest the City attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the City review their unclaimed property and escheat funds to the State of Michigan as necessary.

2. Various decentralized operational procedures should be analyzed and modified accordingly.

During our testing of decentralized receipts and disbursements we noted that Library did not have support for all receipt transactions. We also noted that daily register tapes did not equal the cash balance at the end of the day for fifteen (15) of the twenty-seven (27) days tested. We noted and reported a similar issue related to the Library's receipting process in our audit comments last year.

We suggest the Library support all monies collected with a prenumbered receipt. These receipts should then be reconciled with bank validated deposit tickets. Tracing amounts received from the Library's receipt records to the bank records will assure the accuracy of the Library's financial information and also strengthen and improve internal control over the cash receipting process.

3. The Board should amend the City's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the City has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the City's funds. These resources are necessary for the delivery of the City's services programs, or to carry out its fiduciary responsibilities. Effective for year ended December 31, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the City's ability to provide services and meet its obligations as they become due.

We suggested the Council review their current investment policy and make the necessary amendments to address custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the City's financial statements by GASB Statement No. 40. Subsequent to our fieldwork and prior to the issuance of the audited financial statements, the City's investment policy was revised so as to address the disclosure requirements of GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 13, 2006.

This report is intended solely for the use of management and the City Council of the City of Albion and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006